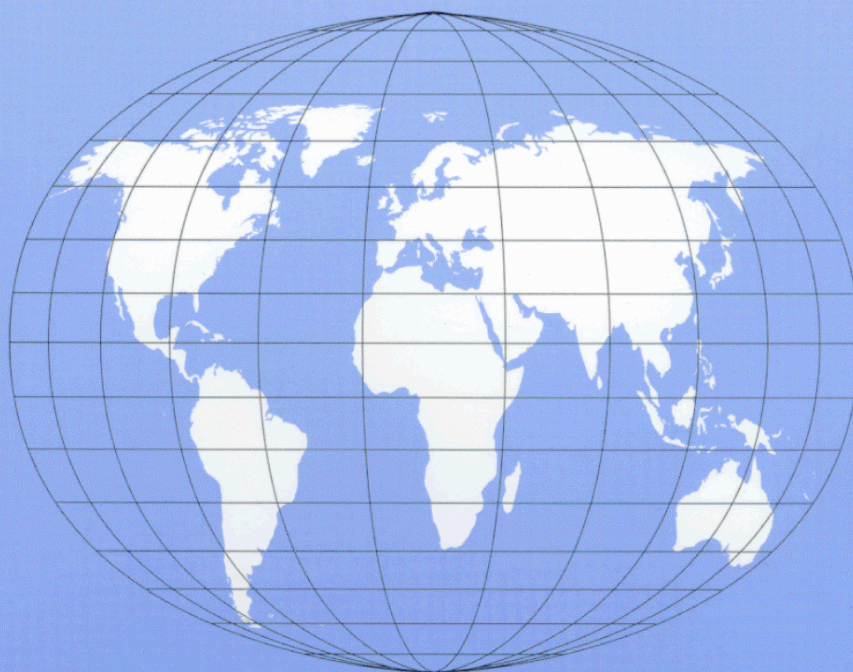


Report of Audit

Concurrent Audit of USAID/Mozambique's Resettlement Grant Distribution Activity

**Report No. 4-656-01-005-P
July 31, 2001**



**PRETORIA, SOUTH AFRICA
OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



U.S. Agency for
International
Development
RIG /Pretoria

July 31, 2001

MEMORANDUM

FOR: Director USAID/Mozambique, Cynthia F. Rozell

FROM: Regional Inspector General/Pretoria, Joseph Farinella

SUBJECT: Concurrent Audit of USAID/Mozambique's Resettlement Grant
Distribution Activity, Report No. 4-656-01-005-P

This memorandum is our report on the subject audit. We have received your comments on the draft report and have included them in their entirety as an appendix to this report (see Appendix II). This report contains no recommendations for your action.

I appreciate the cooperation and courtesy extended to my staff during the audit.

Summary of Results

To accomplish our audit objective, the Regional Inspector General's office in Pretoria (RIG/Pretoria) began a concurrent review of USAID/Mozambique's Resettlement Grant Distribution activity by accompanying USAID/Mozambique and contractor personnel on selected distributions to the field between December 2000 and April 2001. The primary purpose of these visits was to determine, through physical observation, review of documentation and assessment of field procedures and controls, whether USAID/Mozambique and the contractor were taking the steps necessary to ensure that the resettlement grants were delivered to intended recipients in accordance with applicable agreements.

Our results showed that, for those items tested, USAID/Mozambique and the Contractor's Program Management Unit took the necessary steps to ensure that resettlement grants of approximately \$9.7 million were delivered to intended recipients in accordance with applicable agreements.

Background

From early February through May 2000, southern Africa experienced the worst flooding in a century. Hardest hit was Mozambique, one of the ten poorest countries in the world. Madagascar and Botswana also suffered serious damage, as did several other southern African nations. Along with other donors and host governments, the U.S. Government implemented a rapid and comprehensive emergency relief effort.

Closely following the relief effort, rehabilitation and reconstruction activities were authorized by the Southern Africa Floods Supplemental Appropriations [hereinafter known as the Supplemental], signed on July 13, 2000. This Supplemental provided an initial \$25 million in assistance for the countries of Mozambique, Madagascar and Botswana in Fiscal Year 2000. Of the \$25 million, USAID/Mozambique received \$20 million for rural agricultural and commercial reactivation, railroad rehabilitation and road reconstruction. Subsequently, Congress appropriated an additional \$135 million, which the President signed into legislation on November 6, 2000. Of these additional funds, USAID/Mozambique received \$112 million, bringing its total funding to \$132 million under the Supplemental.

One of the major activities under USAID/Mozambique's rural agricultural and commercial reactivation was to use the commercial banking sector to provide direct assistance to displaced families using host country-owned local currency deposited for joint programming. Under this activity, resettlement grants valued at approximately \$100 were to be provided on a one-time, "helping hand" basis, to approximately 85,000 eligible families in five of the most flood-affected provinces of the country: Manica, Gaza, Inhambane, Sofala, and Maputo. The total amount initially estimated to be disbursed was \$8.5 million. On April 20,

2001, this activity was expanded to cover an estimated 106,797 recipient families, and the amount programmed was increased to \$10 million.

Audit Objective

In September 2000, RIG/Pretoria developed an audit approach in consultation with USAID/Mozambique and the Africa Bureau, whereby these supplemental funds and activities would be audited through a combination of financial and performance audits (some concurrently as activities were being carried out) to ensure careful stewardship of U.S. Government-funded resources. This concurrent performance audit is the first for one of these activities and was designed to answer the following question:

Did USAID/Mozambique and the Contractor's Program Management Unit take the steps necessary to ensure that the resettlement grants were delivered to intended recipients in accordance with applicable agreements?

Appendix I provides a complete discussion of the scope and methodology for this audit.

Audit Findings

Did USAID/Mozambique and the Contractor's Program Management Unit take the steps necessary to ensure that the resettlement grants were delivered to intended recipients in accordance with applicable agreements?

For those items tested, USAID/Mozambique and the Contractor's Program Management Unit took the necessary steps to ensure that resettlement grants totaling approximately \$9.7 million were delivered to intended recipients in accordance with applicable agreements.

The Mission's Emergency Reconstruction initiative, the Agriculture and Commercial Trade Program, called for the establishment of a Program Management Unit (PMU) to oversee the management and implementation of the resettlement grant distribution program. In addition, the PMU was to manage an inventory credit program, a rural enterprise loan activity and a microfinance re-capitalization grant activity.

In August 2000, the Mission awarded a \$2.6 million Cost-Plus-Fixed-Fee contract to a U.S.-affiliated accounting firm to establish the PMU. Funding for the PMU was subsequently increased to \$2.9 million on April 30, 2001 to cover expanded program activities through the period of performance (September 2002).

The major challenge of the resettlement grant activity was to distribute about \$10 million in cash grants of approximately \$100 each to an estimated 106,797

recipient families in an orderly and efficient manner, using verifiable eligibility criteria, while providing a reasonable level of assurance that grants were tendered only to intended recipients. In other words, the design and implementation of the program was to provide reasonable assurance that the money went only to those recipients whose lives and livelihoods were negatively impacted by the natural disasters of February-May 2000. To accomplish the above, the PMU was tasked to perform the following under the auspices of the Program Committee, which was comprised of representatives from USAID and the Government of Mozambique:

1. Establish the requirements for the verification of recipient lists and obtain approval from the Program Committee for the procedures used.

Our review of documentation at the Mission showed that on December 7, 2000, the PMU obtained approval (Implementation Letter No. 20) of the eligibility criteria for the resettlement grants from the Program Committee in accordance with the contract. These criteria were developed after extensive consultation in the field among flood-affected households and in conjunction with local and central government officials, including the Ministry of Industry and Commerce and the Ministry of Women and Social Affairs. Primary criteria included households, which were:

- located in one of the districts affected by floods and/or cyclones in the beginning of year 2000; and
- physically displaced from its residential structure for a minimum period of one month and the:
 - (a) residence was destroyed or significantly damaged;
 - (b) personal belongings, including animals, were lost;
 - (c) crops were lost or damaged;
 - (d) household was unable to produce a second harvest in calendar year 2000; and
 - (e) household was dependent on food assistance for some period of time.

The PMU began the registration of potential recipients and the verification of lists in August 2000. According to information provided by USAID/Mozambique, in compiling the recipient lists, teams utilized information in the field, including census data, records kept by local administration, private voluntary and other relief organizations, and village authorities. Approximately 219,000 flood-affected households were registered. Upon a stricter application of the criteria, i.e., damage to house *and* crops *and* other source of livelihood, the number was reduced to 109,000 eligible beneficiaries.

Following a review of the application of these criteria and lessons learned during the pilot phase of the program, the PMU with approval from the Program Committee formally revised some of the criteria (Project Implementation Letter No. 34) on February 21, 2001.

2. Compile a computerized list that identifies by province, district and village, families for cash distribution.

Using the criteria developed in item number one above, the PMU complied with the requirement to compile a computerized list, as shown by the Mission's files. Subsequently, these lists were expanded because, according to USAID/Mozambique, during the design phase of the Resettlement Grant Distribution Activity, the figure of 85,000 eligible families was the best estimate available. Once the field teams began preparing lists, they found that the existing lists from the Government of Mozambique and various non-governmental organizations were limited to the geographic areas to which the Government and the organizations had access. However, there were significant areas that had not even been canvassed during the design phase because of poor accessibility.

The PMU also developed a detailed Implementation Plan, which was approved by the Program Committee on December 7, 2000 (Project Implementation Letter No. 21). This plan provided details by province, district, and village for the distribution of grants to eligible households in the flood-affected districts of Manica and Sofala provinces. During our visits to the remaining provinces of Inhambane, Gaza and Maputo, we noticed that implementation plans were also used.

3. Supervise the implementation of the grant distribution system. Also, in coordination with Banco Comercial E. De Investimentos, Sarl (BCI), the PMU was to develop a detailed distribution system, including all necessary security requirements and schedules for the affected population.

For those items tested, we verified that the PMU complied with the terms of the agreement. For example, we observed that the distribution process during all of our visits generally proceeded in a very orderly manner with staff following prescribed procedures and controls in place to offer reasonable security. Specifically, we observed the following at the distribution sites:

- **Distribution Area.** The perimeter at the distribution areas was cordoned off to limit access into the area with adequate space provided within to allow recipients to move freely between the check and bank tables before exiting without much congestion.



Recipients queued outside the cordoned off distribution area while others enter under the supervision of the PMU Coordinator at the distribution site in Gaza Province, March 2001
(Photograph by RIG/Pretoria auditor)

- **Security Staff** were posted in appropriate areas and directed recipients to proper queues, keeping unauthorized people out of the distribution area.



Security assisting in keeping the distribution orderly in Gaza Province, March 2001
(Photograph by RIG/Pretoria auditor)

- **Callers** ensured that recipients were lined up in queues in the same order that their names appeared on the distribution list and confirmed each person's identity before issuing an identification slip with the person's assigned number on it. The village chiefs assisted by organizing their people in queues beforehand so that most of the recipients were already in proper order by the time the caller went

through the queue. In addition, village elders were there to verify the identity of individual recipients and assist in resolving any disputes. Callers regulated the flow of recipients into the distribution area to prevent too much congestion while also avoiding idleness.



Caller verifying the identity of recipients at the distribution site in Maputo Province, April 2001
(Photograph by RIG/Pretoria auditor)

Check Table. The PMU staff: (1) verified people's identities by asking recipients to state their full name and then checked the name against the name on the distribution list which also had to correspond to the number on the person's identification slip; (2) annotated the person's name onto the check and the identification slip number on the back of the check; (3) annotated the check number onto the distribution list upon issuance; (4) made sure recipients (and the husband) dipped their finger in the indelible ink; and (5) referred any questionable cases (e.g., with identification) or potential problems to the site supervisor.

In resolving any problems or disputes that arose during the distribution, the PMU site supervisor consulted with bank and PMU personnel, as appropriate, and also involved the village elders.



Recipient, approved for a resettlement grant in Manica Province, dips her finger in red indelible ink to minimize the possibility of duplicate payment, December 2000 (Photo by USAID/Mozambique personnel)

- **Bank Table.** The bank staff: (1) verified people's identities again by asking recipients to state their full name and checking their name against the name on the distribution list corresponding to the number on the person's identification slip; (2) annotated the check number onto the bank's copy of the distribution list; (3) stamped the checks "Paid"; and (4) placed identification slip in a plastic bag to minimize the chance of any being picked up later off the ground.



Recipient receiving 1.5 million meticaïs at the distribution site in Inhambane Province, February 2001 (Photo by RIG/Pretoria auditor)

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- **Color Coding.** The identification slips were color coded and dated as an added control measure with colored sheets of paper strung up near the entrance and posted on the tables to direct recipients through the distribution area.



Recipient receiving color-coded identification slip from caller at the distribution site in Gaza Province, March 2001 (Photo by RIG/Pretoria auditor)

- **USAID Emblem.** A large banner with the USAID emblem was displayed during each distribution; in addition, USAID sticker labels were also affixed to the money packets.



The banner showing that the USAID-funded activity is ongoing at this distribution site in Manica, January 2001 (Photo by RIG/Pretoria auditor)

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- **Money:** on a test basis, we checked that each packet contained 1.5 million Mozambican Meticaais.



RIG/Pretoria auditor holds a sample money packet containing 1.5 million meticaais, or about \$91. (Photo taken by Mission personnel, Gaza Province, March 2001)

- **Post Distribution Reconciliation.** The staff from each of the three posts (caller, check table, bank table) were involved in this process, reconciling the results and ascertaining the actual number of payments made based on the tick marks they indicated earlier on their respective copy of the distribution list.



Distribution team conducting post distribution reconciliation at the site in Maputo Province, April 2001 (Photo by RIG/Pretoria auditor)

- **Security.** The level of security coverage over the cash and checks from the time they were in transit to the time they were delivered to the distribution sites was appropriate. To prevent ambush, cash was generally transported unannounced daily to each distribution site. For remote areas, two helicopters were used: one to transport the cash and

personnel and the other to fly escort and ferry additional personnel. For those distributions relatively close to urban areas with a bank, cash was transported by land with the use of 4-wheel drive vehicles and armed security personnel. In all cases, the PMU distribution team traveled in advance by 4-wheel drive vehicles to set up the base camp and the distribution site.



Helicopter transporting cash photographed from the escort helicopter on the way to the distribution site in Sofala Province, April 2001 (Photograph by RIG/Pretoria auditor)



Cash being transported from the bank to the distribution site about 20 kilometers outside the town of Chibuto in Gaza Province, March 2001 (Photograph by RIG/Pretoria auditor)

At the pilot distributions, we noted that some of the above items were not being followed (such as displaying the USAID emblem), but these items were promptly corrected by the PMU team when we pointed them out. None of these exceptions were considered material instances of noncompliance.

According to PMU officials and results reported by them, in 94 operational days, the PMU distributed \$9.7¹ million (159.4 billion Mozambican meticaïs) to 106,280 flood victims from 768 villages in some of the most remote and inaccessible rural areas of Mozambique. During this three-month operational period, the PMU moved 159.4 billion meticaïs in cash, weighing about 5.6 tons, to about 188 distribution points in 5 provinces—using helicopters, 4-wheel drive vehicles, an armored car, a train, boats, canoes, bicycles and motorcycles. On average, the PMU conducted two distributions a day to about 1,130 people. Distributions totaled, on an average, about \$103,287² per day. This project involved many different organizations, which provided management, distribution, banking, logistics, planning, security and transportation for the operations.



Recipients at the distribution site in Sofala Province organized by the PMU team and waiting for the delivery of cash from one of the hovering helicopters, April 2001 (Photograph by RIG/Pretoria auditor)

¹ Exchange rate used was 16,420 Mozambican meticaïs = \$1.00. The distribution to each recipient was 1.5 million meticaïs, or approximately \$91.

² \$9.709 million divided by 94 days = \$103, 287



Last recipient (number 106280) to receive resettlement grant in Maputo Province with members of the PMU distribution and security teams, April 2001 (Photograph by RIG/Pretoria auditor)

A detailed audit of the total amount distributed, the total number of recipients or expenses incurred by the contractors was not conducted as part of this concurrent audit assignment. However, as part of the audit strategy that we developed in conjunction with the Mission, additional actions are being taken to audit the expenditures incurred and the results reported for the Resettlement Grant Distribution Activity. First, the contractor and subcontractors will undergo an Agency-contracted financial audit, with steps to ensure that funds were used as intended and to validate the performance results. Under this type of audit, the Mission contracts for the audit. RIG/Pretoria approves the audit's scope of work and audit program, performs periodic on-site monitoring of the field work performed by the auditors, attends entrance and exit conferences whenever possible, and approves both the draft and final audit reports.

The Mission will also undertake other actions to ensure the accountability of funds and validate the effectiveness of program activities. As of April 30, 2001 the management and accounting for the local currency project account will reside with USAID/Mozambique's Office of Financial Management. The Mission will also contract for an impact evaluation of the Resettlement Grant Distribution Activity.

**Management
Comments and
Our Evaluation**

USAID/Mozambique had no substantive comments to make to the draft audit report, but thanked RIG/Pretoria for the opportunity to respond. The Mission took the opportunity to thank the auditors who worked on the assignment and who accompanied Mission personnel on field trips into some of the most physically demanding flood damaged areas in Mozambique.

The Mission stated that it believed the Resettlement Grant Distribution team efforts (including RIG/A/Pretoria) have resulted in one of the most successful, precedent setting activities in the history of U.S. Government and GRM [Government of the Republic of Mozambique] mutual cooperation.

Scope and Methodology

Scope

We conducted a concurrent audit of USAID/Mozambique's Resettlement Grant Distribution Activity in accordance with generally accepted government auditing standards.

To accomplish our audit objective, RIG/Pretoria auditors made a total of six visits to five provinces in Mozambique between December 2000 and April 2001. The purpose of the visits was to determine—through physical observation, limited review of documentation, and assessment of field procedures and controls—whether USAID/Mozambique and the PMU were taking the steps necessary to ensure that the resettlement grants were delivered to intended recipients in accordance with applicable agreements.

We did not conduct a detailed audit of the total amount distributed, the total number of recipients, or expenses incurred by the contractors. We identified the procedures the PMU used to compile and verify the accuracy of the recipients lists, but we did not judge the validity of the data used to create the lists. The effect of not performing a detailed audit of these areas had no material effect on the information presented in this report. These areas will be audited as part of an Agency-contracted audit.

The results of distributions that RIG/Pretoria attended during this period are summarized in the following table:

Province	No. of Villages	No. of Actual Beneficiaries	No. of Eligible Beneficiaries	Percent of Eligible Beneficiaries Receiving Grants	Total Estimated Grants in U.S. Dollars
Manica	26	2,753	2,994	92.0	\$251,487
Gaza	11	2,691	2,845	94.6	245,823
Inhambane	8	1,249	1,413	88.4	114,096
Sofala	20	4,181	4,277	97.8	381,934
Maputo	9	870	973	89.5	79,475
Total	74	11,744	12,502	94.0	\$1,072,815

Note: The grant was paid in local currency of 1.5 million Mozambican Meticaís, which is about U.S. \$91.35

The 11,744 beneficiaries we observed represented about 11 percent of the total 106,280 flood victims who received resettlement grants. In terms of villages, 74 out of the total 768 were represented at the cash distributions we observed. And, of the approximately \$9.7 million granted, we observed the handling and distribution of \$1.1 million. Sample selection was determined on the basis of staff availability, size and geographical location of the distributions, funds involved, and coverage of all five provinces.

Methodology

The objective of this audit was to determine whether USAID/Mozambique and the PMU were taking the steps necessary to ensure that the resettlement grants were delivered to intended recipients in accordance with applicable agreements.

To accomplish this audit objective, the Regional Inspector General's office in Pretoria (RIG/Pretoria) began a review of USAID/Mozambique's Resettlement Grant Distribution Activity by accompanying PMU and Mission staff on selected distributions to the field between December 2000 and April 2001.

Management
Comments



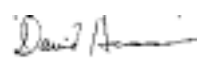
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MEMORANDUM

To : Joseph Farinella
Regional Inspector General for Audit, Pretoria

From : David Hess 
Acting Mission Director

Date : July 18, 2001

Subject : Mission's Response to the Concurrent Audit of
USAID/Mozambique's Resettlement Grant
Distribution Activity - Report # 4-656-01-XXX-P

We refer to the draft report on the Concurrent Audits conducted on USAID/Mozambique's Resettlement Distribution Activity, under the Emergency Recovery: Agriculture and Commercial Trade Program, received by the Mission on June 28, 2001. The Mission would like to take this opportunity of thanking the auditors who worked on this assignment and who accompanied Mission personnel on field trips into some of the most physically demanding flood damaged areas in Mozambique.

The Mission has no substantive comments to make with regards to the draft audit report. We believe the Resettlement Grant Distribution team efforts (including RIG/A/Pretoria) have resulted in one of the most successful, precedent setting activities in the history of U.S. Government and GRM mutual cooperation.

USAID/Mozambique would like to thank RIG/A/P for the opportunity to respond to this draft audit report and once again thank the auditors for their support during the field visits to distribution sites.

Thank you.